

**Agenda Item:** III.**DATE:** April 14, 2005**SUBJECT:** Revision of the Higher Education Funding Formula**ACTION RECOMMENDED:** Approval

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**BACKGROUND INFORMATION:** The Tennessee Higher Education Commission staff in early 2003 established the Formula Review Committee (FRC) to review and recommend a revised set of peer institutions and other appropriate revisions to the higher education funding formula including a revised performance funding calculation. THEC staff also established the following sub-committees to conduct a complete review of each area. The sub-committees were: Maintenance & Operations Review Sub-Committee; Peer Review Sub-Committee; Performance Funding Sub-Committee; and, the Technical Advisory Sub-Committee. The FRC and the related sub-committees included staff representing THEC, Administrative and Legislative Branches of Government, the University of Tennessee System, and the Tennessee Board of Regents System.

On May 20, 2004, related legislation was signed into law under TCA 49-7-202. It reads:

*“Develop policies and formulae or guidelines for fair and equitable distribution and use of public funds among the state's institutions of higher learning that is consistent with and furthers the goals of the statewide master plan, taking into account enrollment projections, recognizing institutional differences as well as similarities in function, service, academic programs, and levels of instruction. Additionally, such policies and formulae or guidelines shall also support and enhance regional collaboration and student access through financial aid, while being mindful of the funding capacity of the state;*

*The commission shall review and revise the current formulae and provide the senate and house education committees with a report on progress made during each session of the 104th General Assembly. The formulae shall be utilized to determine the higher education appropriations recommendation no later than the 2006-2007 fiscal year.”*

**SUMMARY OF COMMENTS:** The new funding formula was developed with emphasis on the provisions articulated in the 2005-2010 Higher Education Master Plan. Its major provisions and the related formula elements are indicated in the matrix on the next page. Elements included in the new funding formula and the extents of their revision are indicated on the third page of this document.

**RECOMMENDATION:** It is recommended that the Commission approve the conceptual changes of the new Higher Education Funding Formula and authorize the Executive Director to approve technical adjustments as needed to implement the funding formula model for utilization in the FY 2006-07 funding recommendations. THEC staff will make a detailed presentation of this agenda item and will be available to answer questions you may have regarding the new funding formula.

## THEC Master Plan/Funding Formula Linkage

Master Plan	Formula Features
<b>Access</b>	<ul style="list-style-type: none"><li>• Increased enrollment produces greater recommendation.</li><li>• Focus on adult enrollment of students age 25 and up at community colleges</li></ul>
<b>Quality</b>	<ul style="list-style-type: none"><li>• Enhancement of the performance funding calculation. Increased focus on student retention.</li><li>• Emphasis on mission distinction in programmatic offerings and research.</li></ul>
<b>Preparation</b>	<ul style="list-style-type: none"><li>• Increased focus on student retention.</li></ul>
<b>Affordability</b>	<ul style="list-style-type: none"><li>• Revised Cost Sharing policy between the state and the student.</li></ul>

## **New Formula Model Elements**

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The Tennessee Higher Education Commission staff through utilization of the formula Review Committee and its sub-committees made a complete review of all elements of the college and university funding formula. This review included several major areas of policy affecting public higher education. The following elements are included in the new formula model:

- Enhanced focus on student retention and transfer.
- Emphasis on non-traditional students at the two-year sector.
- Use of new unique peer sets for each university and a new peer set for the community colleges.
- Expansion of university peer sets from 10 to 12 institutions and from 10 to 15 for the community college peer set.
- Simplification of the calculations and data required from each institution.
- New enrollment base calculation that is a three-year moving average of actual fall enrollments plus summer enrollment supplements.
- Research calculation that is determined by Carnegie classification and Doctoral degree production.
- Alterations to the out-of-state tuition deduction that avoid the incentives and disincentives in the formula for enrolling out of state students.
- Utilization of the total needs concept and simplification of the revised cost sharing policy that utilizes percentages of student fees.

The new model contains many elements not found in the old formula model and are indicated below:

- New, unique peer sets for each university
- New peer set for the community colleges
- Focus on adult enrollment of students age 25 and up at community colleges
- Research calculation determined by Carnegie classification and Doctoral degree production
- Enrollment base calculation using a three-year moving average of actual fall enrollments plus supplements
- Models current salary data

Some of the new formula's components are included in the old formula model but have been revised; these are indicated in the following listing:

- Out of state tuition deduction that avoids the incentives and disincentives for enrolling out of state students.
- Focus on student retention at universities
- Revised cost sharing policy that no longer uses ratios, but uses a percent of the total need
- Enhancement of the performance funding calculation
- Student services calculation
- Institutional support

The new formula also utilizes some existing formula components that were determined to be adequate after updating the specific rates used in these calculations. These are: Maintenance & Operation; Utilities; Rent; Operating Inflation; and, Legislative Initiatives formerly know as "Special Allocations".